

# INDIANA

Comprehensive Annual Financial Report  
For Fiscal Year Ended June 30, 2004

**Joseph E. Kernan, Governor**



Prepared by the Office of  
**Indiana Auditor of State**

**Connie K. Nass**

Room 240 State House  
200 West Washington St.  
Indianapolis, IN 46204



**STATE OF INDIANA**

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For the Fiscal Year Ended June 30, 2004**

Joseph E. Kernan, Governor



Prepared by:

The Office of the Auditor of State  
**Connie K. Nass**  
**Auditor of State**  
Room 240  
State House  
Indianapolis, Indiana 46204

# Acknowledgments

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We extend special thanks to all employees of State agencies throughout Indiana. Your cooperation and assistance in the preparation of this Comprehensive Annual Financial Report has been invaluable.

The pictures in this report are of scenes in State Parks located in the State of Indiana. The pictures were taken by **John Maxwell**, Indiana Department of Natural Resources. Reproduced with the permission of the photographer.

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**AUDITORS OF STATE  
of  
THE STATE OF INDIANA**

<b>Term</b>	<b>Name</b>	<b>Politics</b>
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1999-	Connie K. Nass	Republican

STATE OF INDIANA

Comprehensive Annual Financial Report  
For the Year  
Ended June 30, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION

Title Page.....	i
Acknowledgments.....	ii
Auditors of State.....	iii
Table of Contents.....	iv
Letter of Transmittal.....	ix
Certificate of Achievement.....	xvi
State Organization Chart and Selected State Officials.....	xvii

FINANCIAL SECTION

Independent Auditor's Report.....	3
Management's Discussion and Analysis.....	5
Basic Financial Statements:.....	20
<b>Government-Wide Financial Statements:</b> .....	21
Statement of Net Assets.....	22
Statement of Activities.....	24
<b>Fund Financial Statements:</b> .....	25
Balance Sheet – Governmental Funds.....	26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	28
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	32
Statement of Fund Net Assets – Proprietary Funds.....	34
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	36
Statement of Cash Flows – Proprietary Funds.....	38
Statement of Fiduciary Net Assets – Fiduciary Funds.....	42
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	43
Combining Statement of Net Assets – Discretely Presented Component Units.....	44
Combining Statement of Activities – Discretely Presented Component Units.....	45
Combining Statement of Net Assets Discretely Presented Component Units – Governmental and Proprietary Funds.....	46

Combining Statement of Activities Discretely Presented Component Units – Governmental and Proprietary Funds .....	47
Combining Statement of Net Assets Discretely Presented Component Units – Colleges and Universities .....	48
Combining Statement of Activities Discretely Presented Component Units – Colleges and Universities .....	49
<b>Notes to the Financial Statements .....</b>	<b>51</b>
<b>Required Supplementary Information: .....</b>	<b>106</b>
Schedule of Funding Progress Employee Retirement Systems and Plans .....	107
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Major Funds (Budgetary Basis) .....	108
Budget/GAAP Reconciliation – Major Funds .....	113
Infrastructure – Modified Reporting Condition Rating of the State’s Highways and Bridges .....	114
Comparison of Needed-to-Actual Maintenance/Preservation .....	115
<b>Other Supplementary Information: .....</b>	<b>117</b>
Non-Major Governmental Funds: .....	118
Balance Sheet – Non-Major Governmental Funds .....	120
Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds .....	121
Combining Balance Sheet – Non-Major Special Revenue Funds .....	122
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Special Revenue Funds .....	124
Combining Balance Sheet – Non-Major Capital Projects Funds .....	126
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Capital Projects Funds .....	127
Combining Balance Sheet – Non-Major Permanent Funds .....	128
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Permanent Funds .....	129
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual Non-Major Funds (Budgetary Basis) .....	130
Budget/GAAP Reconciliation Non-Major Special Revenue Funds .....	138
Internal Service Funds: .....	139
Combining Statement of Net Assets – Internal Service Funds .....	140
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets – Internal Service Funds .....	142
Combining Statement of Cash Flows – Internal Service Funds .....	144
Fiduciary Funds: .....	148
Combining Statement of Fiduciary Net Assets – Pension Trust Funds .....	150
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds .....	151
Combining Statement of Net Assets – Private-Purpose Trust Funds .....	152
Combining Statement of Changes in Net Assets – Private-Purpose Trust Funds .....	153
Combining Statement of Net Assets – Agency Funds .....	154
Combining Statement of Changes in Assets and Liabilities – Agency Funds .....	155
Non-Major Discretely Presented Component Units: .....	157
Combining Statement of Net Assets Non-Major Discretely Presented Component Units – Governmental and Proprietary Funds .....	158

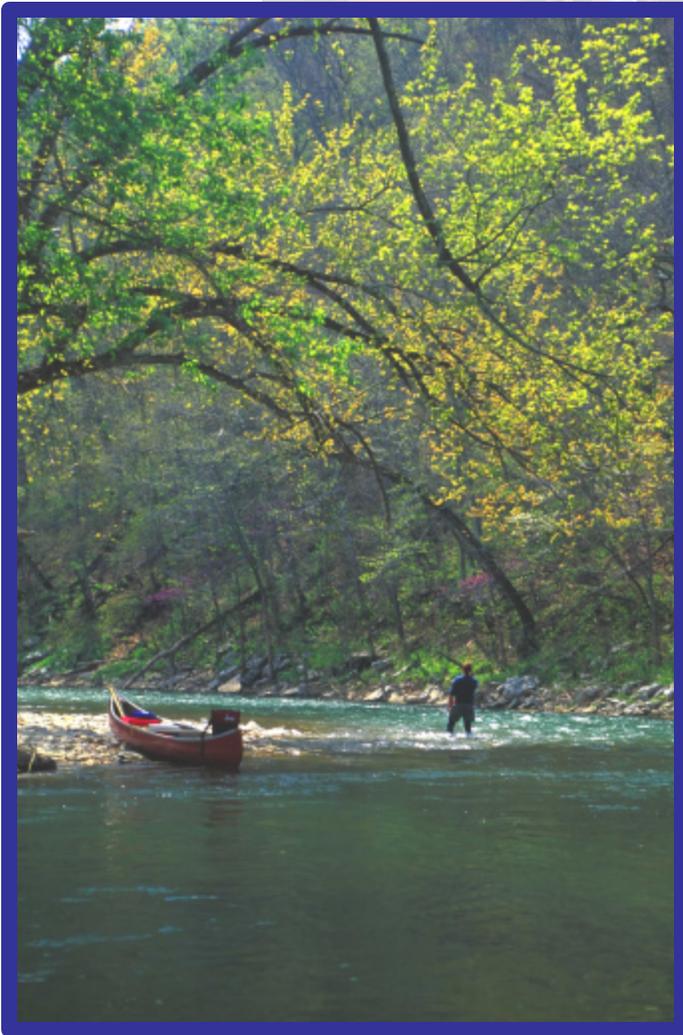
Combining Statement of Activities	
Non-Major Discretely Presented Component Units – Governmental and Proprietary Funds	159
Combining Statement of Net Assets	
Non-Major Discretely Presented Component Units – Colleges and Universities	160
Combining Statement of Activities	
Non-Major Discretely Presented Component Units – Colleges and Universities	161

<b>STATISTICAL SECTION</b>
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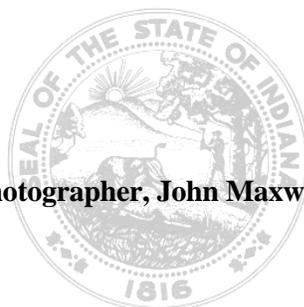
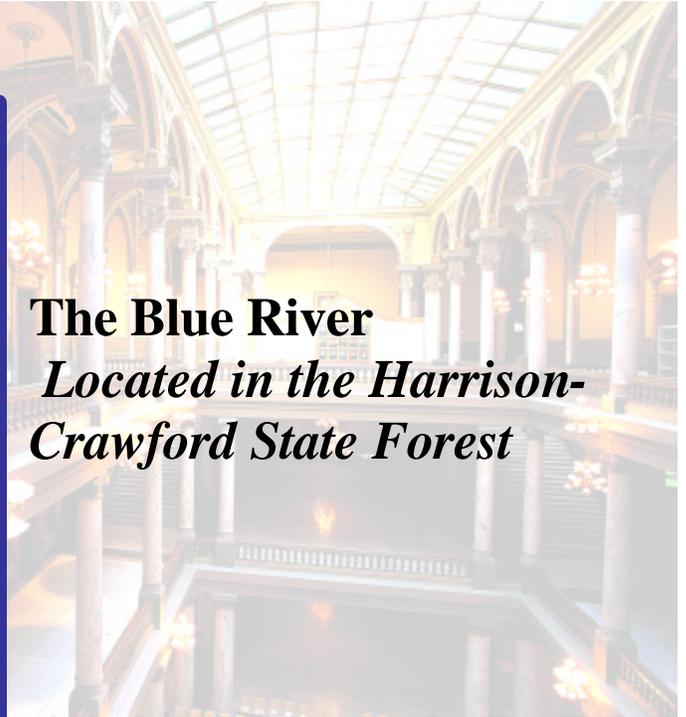
State Facts	166
General Governmental Revenues by Source and	
Expenditures by Function – Last Ten Fiscal Years	167
Reconciliation of General Fund Unappropriated Surplus to General Fund Unreserved,	
Undesignated Fund Balance	168
Distribution of Motor Vehicle Highway Fund	169
Revenue Bond Coverage	170
Indiana and United States Population – Ten Year Schedule	171
Population by Age – Ten Year Schedule	172
Per Capita Income – Ten Year Schedule	173
Total Taxable Income – Ten Year Schedule	174
Indiana and United States Employment Statistics – Ten Year Schedule	175
Twenty Largest Indiana Public Companies	176
Twenty Largest Indiana Private Companies	177
Twenty Largest Indiana Employers	178
Twenty Largest Indiana Colleges and Universities	179
Commercial Bank Deposits - Ten Year Schedule	180
County Facts	181
Property Tax Schedules – 2002 Payable 2003	182
Property Tax Levies and Collections – Last Ten Years	183
Assessed Value of Property – Last Ten Years	183
Assessed Value and Current Property Tax Levied by County – Payable 2003	184
Property Valuations and Deductions for Property Taxes Payable 2003 by County	185
Property Taxes Charged Payable 2003 by Fund and County	189
Distribution of Property and Excise Taxes Collected in 2003 by Fund and County	196
Property and Excise Taxes Collected in 2003 by County	197
Property Tax Schedules – 2003 Payable 2004	198
Assessed Value and Current Property Tax Levied by County – Payable 2004	199
Property Valuations and Deductions for Property Taxes Payable 2004 by County	200
Property Taxes Charged Payable 2004 by Fund and County	204
Full Time Employees Paid Through the Auditor of State's Office	214
Employees Other Than Full Time Paid Through the Auditor of State's Office	216
Pension, Death Benefits, and Former Governors –	
Number of People Paid Through the Auditor of State's Office	218

# INTRODUCTORY SECTION

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



**The Blue River**  
*Located in the Harrison-Crawford State Forest*



Reproduced with the permission of the photographer, John Maxwell, Indiana Department of Natural Resources

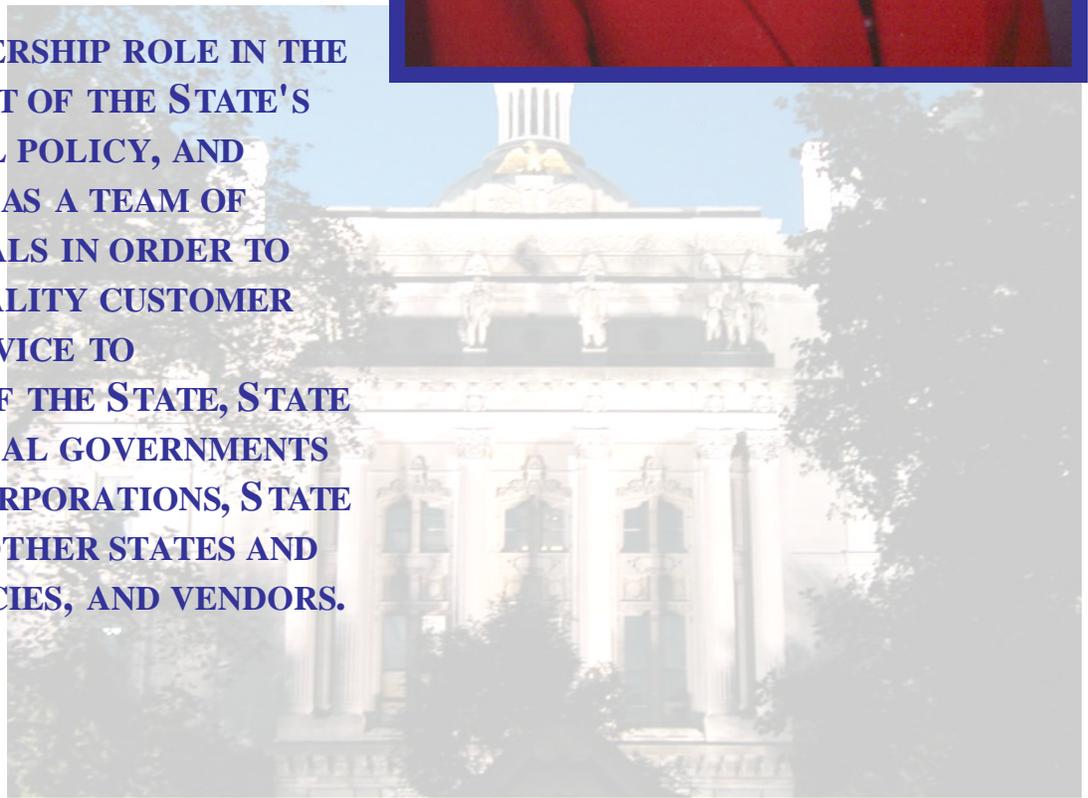
**CONNIE KAY NASS**  
**AUDITOR OF STATE OF INDIANA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

*THE MISSION OF THE STATE  
AUDITOR'S OFFICE IS TO CARRY OUT  
THE CONSTITUTIONAL  
RESPONSIBILITIES OF THE AUDITOR  
OF STATE BY:*

**MAINTAINING THE STATE'S  
FINANCIAL RECORDS AND REPORTS  
AND PAYING THE STATE'S BILLS AND  
EMPLOYEES EFFICIENTLY,  
EFFECTIVELY, AND HONESTLY**

**EDUCATING AND INFORMING THE  
PUBLIC ABOUT INDIANA STATE  
GOVERNMENT'S FINANCES**

**TAKING A LEADERSHIP ROLE IN THE  
DEVELOPMENT OF THE STATE'S  
FINANCIAL POLICY, AND  
WORKING AS A TEAM OF  
PROFESSIONALS IN ORDER TO  
PROVIDE QUALITY CUSTOMER  
SERVICE TO  
THE CITIZENS OF THE STATE, STATE  
AGENCIES, LOCAL GOVERNMENTS  
AND SCHOOL CORPORATIONS, STATE  
EMPLOYEES, OTHER STATES AND  
FEDERAL AGENCIES, AND VENDORS.**





# Auditor of State

*Connie Kay Nass*

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FACSIMILE (317) 232-6097  
<http://www.ai.org/auditor>

December 30, 2004

Governor,  
Members of the General Assembly,  
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2004.

This Comprehensive Annual Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. While management remains primarily and ultimately responsible for the contents and presentation of this report, responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the State agencies that provide the data and are obligated to verify postings. We believe the information set forth in this report is accurate in all aspects and is presented in a manner designed to set forth the financial position and results of operations of the State as measured by the financial activity of its various funds.

State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by federal and State government to be independent auditors. The Auditor's report on the financial statements is included in the financial section of the Statewide Single Audit Report of the State of Indiana.

The State is responsible for ensuring that an adequate internal control structure is in place to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

This internal control structure is subject to periodic evaluation by management and internal audit staff of the various State agencies. As part of the Single Audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

Two years ago, the State adopted GASB Statement No. 34 as required by Generally Accepted Accounting Principles. GASB 34 provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The

governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges, dams) has been capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

GASB Statement No. 34 provides for the presentation of Management's Discussion and Analysis (MD&A) in the Financial Section. The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. It is presented before the basic financial statements. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, the State Organizational Chart, and a listing of Selected State Officials.

The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplementary information.

The financial statements include government-wide and fund financial statements, representing all funds for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority, and ability to significantly influence operations. Based on these criteria, the various funds and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

## **Profile of the Government**

Located in America's heartland in the Midwest, Indiana is a leading manufacturing State and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,195,643, which makes Indiana the nation's 14th largest State. The State is 64 percent urban and 36 percent rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

Indiana became the 19<sup>th</sup> State of the Union on December 11, 1816. The constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State constitution and legislation establish the following state-wide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, Superintendent of Public Instruction, and Clerk of the Courts. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 92 Circuit Courts, and one Tax Court.

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, and conservation, culture and economic development.

This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legal separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

The Indiana General Assembly meets every other year to adopt a biennial budget, which is submitted by the Governor. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated funding sources. Budgetary control is exercised in that agencies of the State may only expend appropriations as allotted by the Budget Agency or other statutory authority. The State Board of Finance, which consists of the Governor, Auditor of State, and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign and reassign appropriations made for one specific purpose to another use or purpose within the same agency.

## **Factors Affecting Financial Condition**

The information presented in the financial statements is better understood within the context of the specific environment within which the State of Indiana operates. The following describes that environment.

### **Local Economy**

During the past decade, Indiana's economy grew in size and diversity. With an estimated 2001 Gross State Product of approximately \$189.9 billion, Indiana's economy ranks sixteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, medical equipment and surgical supplies, engines and parts, magnetic and optical media, household appliances, motor vehicle bodies and trailers, rubber products and steel.

During this past decade, employment in Indiana shifted significantly between sectors, reflecting the fundamental changes taking place in the State's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 19.6% of total employment, it was the slowest growing sector from 1993 to 2003. The fastest growing sectors were Professional and Business Services, which grew by 37.5% from 1993 to 2003, followed by Education and Health Services (24.6% growth) and Construction (22.7% growth). Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

In 2003, Indiana's per capita personal income reached \$28,783, increasing 2.7% from 2002. During the past ten years, Indiana's personal income grew at an average annual rate of 3.83%. From 1992 to 2002, Indiana's median household income grew faster than that of the United States, averaging an annual growth rate of 1.66% for Indiana as compared to 1.15% for the United States. In 2003, median income was \$42,206 or 96% of the U.S. average, up from 92% in 1992.

## **Cash Management and Investments**

Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 1.84%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

## **Debt Administration**

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is \$9.32 billion at June 30, 2004.

## **Risk Management**

The State of Indiana assumes the cost of the risks associated with Unemployment Compensation Benefit Claims for State employees, Workers' Compensation Benefit Claims for State employees, Tort claims filed against the State, Medical Malpractice claims filed against State hospitals, accidents caused by State motor vehicles, and on State owned real property, including public buildings. The State administers self-insurance funds for certain employee health benefits, disability and death benefits.

## **Pension Benefits**

The State of Indiana sponsors eight public employee retirement systems (PERS). One of these, the State Police Pension Fund, is part of the primary government. The Public Employees' Retirement Fund and the State Teachers' Retirement Fund are discretely presented component units. In addition to its own fund, the board of the Public Employees' Retirement Fund administers the following funds: the 1977 Police Officer and Firefighters' Pension and Disability Fund, the Excise Police and Conservation Enforcement Officers' Retirement Fund, the Prosecuting Attorneys' Retirement Fund, the Legislators' Retirement System, and the Judges' Retirement Fund.

## **Major Initiatives**

K-12 Education – Indiana, through the Education Roundtable, continues its efforts to develop and implement rigorous standards in math, language arts, science and social studies. Consistent with the No Child Left Behind Act and Indiana's own P.L. 221-1999, ISTEP+ testing is now being given in grades 3-10 in math and language arts. Science is being piloted now. The General Assembly rewrote the school funding formula in 2003 to include charter schools in the regular distribution of State money for all schools. Currently, 23 charter schools are operating in Indiana.

Public Safety/Public Health - The State has been divided into 10 districts to encourage and facilitate collaborative planning at a local level for Bioterrorism Response Preparedness. Over 55% of the bioterrorism funding has directly benefited local communities, including \$4.8 million in direct financial assistance. Much of the remaining funding provides indirect assistance to local

communities, such as the public health laboratory equipment additions and the enhancement of services which are provided at no charge to the local health departments. High speed internet lines are now available to every county and hundreds of new computers have been distributed at the local level.

Funding has been offered to every county to hire a full time public health preparedness coordinator. Training exercises are being held throughout the State to practice mass prophylaxis/vaccination clinics and distribution of the Strategic National Stockpile of medications and supplies. Indiana hospitals have received direct financial assistance of \$10 million/year to strengthen bioterrorism preparedness. An assessment of mental health facilities is being done to ensure that the State can deal with the emotional ramifications of a bioterrorism incident.

A Health Alert Network with redundant communication technologies (including the 800 megahertz SAFE-T project) has been established. A rapid notification system will be essential in the event of an emergency, whether it is bioterrorist or natural. Geocoding systems (GIS) are being expanded, which will allow detailed analysis of conditions ranging from anthrax to diabetes.

Information from hospital surveys and quality indicator data from the Centers for Medicare and Medicaid (CMS) will be used to construct hospital-specific reports. Consumers will be able to access this data from the Indiana State Department of Health (ISDH) website and compare hospitals in their area.

By utilizing small pools of State and federal funding, and through the dedicated work of the ISDH staff, Health Insurance Portability and Accountability Act (HIPAA) compliance has been achieved for the claims processing systems of our HIPAA covered programs.

Public Health – Indiana’s Chronic Disease Management Program has received national attention. Consensus guidelines for congestive heart failure, diabetes, and asthma have been developed.

Public Health - Food Inspection Regulatory Management Systems (FIRMS) will dramatically help Indiana obtain more food safety information to help formulate policy for protecting the public. The system can also be used in a food-borne bioterrorist attack to help track the source of contamination.

Public Health – The Indiana Black and Minority Health Fair annual event provides more than 100,000 health screenings for the population who attends the fair. The Health Fair is the only place that many individuals receive health screenings during the year, and a number of referrals for care are made during the event.

Public Health – Through the Community Health Center Network, Indiana uses tobacco settlement dollars, health care services are supported at over 76 community health center sites. This system serves as a safety net for thousands of Hoosiers who are uninsured or underinsured, and would not receive health services otherwise.

Public Health - A web-based child and adult immunization registry has allowed Indiana to make a dramatic increase in immunization rates. The immunization registry will help ensure that children are immunized in a timely manner and that they do not receive redundant vaccines.

Public Health - The newborn screening expansion has been completed and infants are now screened for 39 metabolic or chemical defects at birth as opposed to the previous eight. This has already made a dramatic difference in the long-term outcome and has saved the lives of several

infants.

Public Health - Indiana has formed a child obesity task force to begin to address the epidemic increase in childhood obesity. A Community Nutrition Office has been created to coordinate the multiple ISDH programs, ranging from WIC to the community health center network that can impact the obesity epidemic affecting our country.

Public Health - Legislation was passed last year to encourage the routine testing of pregnant women for HIV. Rules have been adopted to implement this legislation and an educational brochure has been produced.

Public Health – Indiana uses funds from civil penalties to develop educational programs for long term care facilities has been approved by Centers for Medicare and Medicaid. The aim of these programs is to improve the quality of care for residents of long term care facilities.

Public Health – The Indiana Dawn Project was recognized by the President’s New Freedom Commission on Mental Health as one of the best programs in the nation. The Dawn project stresses intensive community-based care over in-patient hospital facilities.

Public Health - This year, Indiana will utilize federal Preventive Health and Health Services Block Grant monies to fund Community Health Improvement initiatives in each of the ten public health preparedness districts in the State. These initiatives will be drawn either from the Minority Health Plan or from the Community Health Improvement Plan. This is an example of the integration of diverse public health programs into much focused community initiatives.

Healthcare – Like all large employers, Indiana continued to focus on providing quality healthcare to its employees and dependents, but in a cost effective and efficient manner. In 2004, a Pharmacy Benefits Manager was contracted to administer the prescription drug program for the State employees self insured healthcare plans. In addition, the State introduced new, optional health care plans that gave the employees more control on how to spend their healthcare dollars while still providing quality care at a reduced premium level. The General Assembly passed legislation that created the Indiana Aggregate Prescription Purchasing Pool. This legislation created a common prescription drug program and pharmacy benefits manager for all State employee and all State university employee healthcare plans, with the exception of employees enrolled in Health Maintenance Organization (HMO) plans. All local units of government may also join the pool. The State is in the process of implementing this program for a January 1, 2005 effective date. More recently, the State is developing the Hoosier Health Plan to provide low cost quality healthcare to uninsured small employers and uninsured individuals. Also in 2004, the General Assembly passed legislation that solidified the funding for the Indiana’s High Risk Pool, the Indiana Comprehensive Health Insurance Association.

Higher Education – Indiana has concentrated part of its efforts on improving and enriching the Indiana economy through higher education. Enrollment in Indiana’s two year Community College system increased 4.0% in fiscal year 2004 and an additional 7.0% in fiscal year 2005. A new program was initiated to provide additional funding to research institutions that are able to increase their research grants, infusing money and jobs into the economy. Indiana also provided targeted appropriations to all State supported colleges and universities designed to stimulate the economy, including funding for programs in Informatics, Biomedical Engineering, Digital Communications and Nursing. State aid for students attending public and private colleges and universities increased 14% in FY 04 and an additional 12% in FY 05.

## **Awards and Acknowledgements**

### **Certificate of Achievement Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the eleventh consecutive year that the State of Indiana has achieved this prestigious award.

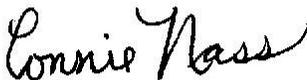
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

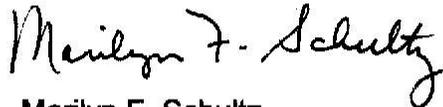
### **Acknowledgments**

We acknowledge the cooperation and assistance of all State agencies in the preparation of this report.

Sincerely,



Connie K. Nass  
Auditor of State  
State of Indiana



Marilyn F. Schultz  
Director  
State Budget Agency

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Indiana

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

